

DESERT COMMUNITY ENERGY
FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2024



DavisFarr
CERTIFIED PUBLIC ACCOUNTANTS

DESERT COMMUNITY ENERGY
Financial Statements
Year ended June 30, 2024
(With Independent Auditor's Report Thereon)

DESERT COMMUNITY ENERGY

Financial Statements

Year ended June 30, 2024

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Independent Auditor's Report

To the Board of Directors
Desert Community Energy
Palm Desert, California

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Desert Community Energy ("DCE"), as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise DCE's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of DCE as of June 30, 2024, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of DCE and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

DCE's management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about DCE's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of DCE's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about DCE's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *management's discussion and analysis* be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Report on Summarized Comparative Information

We have previously audited DCE's 2023 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 20, 2023. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2023 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2024 on our consideration of DCE's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering DCE's internal control over financial reporting and compliance.

DavisFarrLLP

Irvine, California
October 31, 2024

**DESERT COMMUNITY ENERGY
MANAGEMENT DISCUSSION & ANALYSIS
YEAR ENDED JUNE 30, 2024**

The following is a discussion and analysis of Desert Community Energy's (DCE's) financial performance and includes a summary of DCE's financial statements coupled with a detailed analysis of DCE's financial position and results of operations for the fiscal year ended June 30, 2024, with comparative information from the fiscal year ended June 30, 2023. The purpose of management's discussion and analysis (MD&A) is to help DCE customers and other stakeholders understand what the financial statements and notes in this financial report say about DCE's financial health and why it has changed since last year. It contains information drawn from those other parts of the report, accompanied by explanations informed by DCE staff's knowledge of DCE's finances. Please read this discussion and analysis in conjunction with the financial statements, including the notes to the financial statements identified in the accompanying tables.

If you have any questions about this report or require further information, contact DCE staff at 760.346.1127 and ask for the Finance Director.

OVERVIEW OF THE FINANCIAL STATEMENTS

Following Management's discussion and analysis (this section), DCE's financial report contains basic financial statements. Those financial statements represent DCE's work procuring power resources on behalf of electricity customers in its jurisdiction to achieve its objective of offering cleaner, competitively priced electricity while retaining local control, reinvesting revenues, encouraging local job creation, offering more renewable energy options, and reducing greenhouse gas (GHG) emissions. The Statement of Net Position includes all of DCE's assets, liabilities, and net position and provides information about the nature and amount of resources and obligations at a specific point in time, the fiscal year-end date. The Statement of Revenues, Expenses, and Changes in Net Position reports all of DCE's revenue and expenses for the year shown. The Statement of Cash Flows reports the cash provided and used by operating activities, as well as other sources and uses, such as cash flow from financing activities.

The financial statements also include notes to the financial statements, which delve deeper into DCE's finances as reported in the basic financial statements. The information in the notes is as important to understanding DCE's finances as the information in the financial statements themselves. DCE uses notes to (1) present information in greater details than is possible within the financial statements, (2) explain the nature of amounts reported in the financial statements and how those amounts were determined, and (3) report certain information that does not meet the requirements for inclusion in the financial statements (such as certain commitments).

All of DCE's financial activities are captured in an enterprise fund and use the *economic resources measurement focus* and *accrual basis of accounting* in accordance with Generally Accepted Accounting Principles (GAAP), as prescribed by the Governmental Accounting Standards Board (GASB). In other words, they comprehensively report all types of financial statement elements:

- *Assets* – resources that DCE controls, which are mostly in the form of short-term assets like cash and includes long-term assets like collateral deposits for power purchase agreements with counterparties.
- *Liabilities* - amounts DCE owes to others, from short-term liabilities such as Utility User Taxes collected from customers and owed to other governments to long-term liabilities like performance security from developers held by DCE until the commercial operation date for power purchase agreements.

**DESERT COMMUNITY ENERGY
MANAGEMENT DISCUSSION & ANALYSIS
YEAR ENDED JUNE 30, 2024**

- *Revenues and Expenses* – inflows and outflows of resources, respectively, related to the current year.

More detail about the measurement focus and basis of accounting can be found in Note 1 of the notes to the financial statements, the summary of significant accounting policies.

FINANCIAL SUMMARY AND ANALYSIS OF DCE'S FINANCES

The following tables provide condensed financial information (financial summary) derived from the basic financial statements, excluding the statement of cash flows, and compare current year balances to the prior year. Adding context to the financial summary information is a detailed analysis and discussion of DCE's financial position and results of operations.

Statement of Net Position (amounts expressed in thousands)				
	June 30, 2024	June 30, 2023	Dollar Change	Percentage Change
Current and Other Assets	\$ 46,940	\$ 25,780	\$ 21,161	82.1%
Total Assets	46,940	25,780	21,161	82.1%
Current Liabilities	11,349	6,060	5,288	87.3%
Non-Current Liabilities	405	405	-	0.0%
Total Liabilities	11,754	6,465	5,288	81.8%
Net Position:				
Restricted Net Position	147	147	-	0.0%
Unrestricted Net Position	35,040	19,167	15,872	82.8%
Total Net Position	\$ 35,187	\$ 19,314	\$ 15,872	82.2%

Note: Totals may not sum precisely due to rounding differences.

As of June 30, 2024, DCE's net position (assets minus liabilities) was \$35,186,779, an increase of \$15.9 million compared with June 30, 2023. The increase is primarily due to the increase in unrestricted net position due to growth in cash on hand and accounts receivable. Most of this increase in the unrestricted net position was the result of revenue growth which was partially offset by an increase in the cost of energy. The major contributing revenues and expenses that affected the change in net position for DCE are summarized and analyzed next.

**DESERT COMMUNITY ENERGY
MANAGEMENT DISCUSSION & ANALYSIS
YEAR ENDED JUNE 30, 2024**

Revenues, Expenses and Changes in Net Position

Statement of Revenues, Expenses, and Changes in Net Position
(amounts expressed in thousands)

	<u>June 30, 2024</u>	<u>June 30, 2023</u>	<u>Dollar Change</u>	<u>Percentage Change</u>
Operating Revenues:				
Electricity Sales	\$ 69,669	\$ 59,095	\$ 10,574	17.9%
Miscellaneous	31	4,211	(4,179)	(99.3%)
Non-Operating Revenues:				
Interest Revenue	489	30	459	1,520.6%
Total Revenues	<u>70,189</u>	<u>63,336</u>	<u>6,854</u>	<u>10.8%</u>
Operating Expenses:				
Electricity	51,451	45,963	5,488	11.9%
Other	2,865	2,883		
Non-Operating Expenses:				
Interest Expenses	1	47	(45)	(97.4%)
Total Expenses	<u>54,317</u>	<u>48,893</u>	<u>5,424</u>	<u>11.1%</u>
Changes in Net Position	15,872	14,443	1,429	9.9%
Net Position - Beginning of Period	<u>19,314</u>	<u>4,871</u>	<u>14,443</u>	<u>296.5%</u>
Net Position - End of Period	<u>\$ 35,187</u>	<u>\$ 19,314</u>	<u>\$ 15,872</u>	<u>82.2%</u>

Note: Totals may not sum precisely due to rounding differences.

Growth in Revenues

Approximately 98% of DCE's revenue is from electricity sales. In FY 2023-2024 total revenues amounted to approximately \$70.2 million, representing an increase of \$6.9 million or 10.8% from FY 2022-2023. Since DCE's customer base remained stable at about 33,000 between the fiscal years, this growth was primarily driven by an increase in charges for electricity which represent electricity sales by DCE to its customers for cost recovery and financial reserve building in line with board approved financial reserve targets. During the fiscal year ended June 30, 2024, DCE implemented four rate adjustments in-line with the Rate Stabilization Schedule (RSS). The RSS authorizes DCE staff to adjust DCE retail rates in response to changes in Southern California Edison (SCE) rates and/or Power Charge Indifference Adjustment (PCIA) amount to maintain DCE Board-approved rate guidelines. Three of the four rate adjustments increased rates and contributed to DCE's growth in revenue. The following rate increases were necessitated for stabilization to SCE rates: October 2023: 0.5%, Jan 2024: 2.3%, and March: 2024 1.2%. One rate adjustment resulted in a decrease in rates to DCE customers in June 2024 by approximately 1.6% on average.

Miscellaneous decreased by 93.2% due to receipt of 2022 California Arrearage Payment Program funds credited to customer accounts in FY 2022-2023 that were not available to DCE customers in FY 2023-2024.

**DESERT COMMUNITY ENERGY
MANAGEMENT DISCUSSION & ANALYSIS
YEAR ENDED JUNE 30, 2024**

Beyond these major sources of revenue, DCE's investment earnings also saw a notable increase. This was due to the higher interest rates prevailing during the fiscal year coupled with higher cash balances, which positively impacted DCE's returns on investments.

Increase in Expenses

Approximately 94% of DCE's expenses are the cost of wholesale energy. For FY 2023-2024, total expenses were approximately \$54.3 million, representing an increase of \$5.4 million or 11.1% from the previous fiscal year. This rise in expenses is primarily attributed to the increased cost of wholesale energy supply required to serve DCE customers, which accounted for about \$4 million of the increase. Furthermore, power market price conditions for serving current load and for hedging for future out-year loads have also increased from the previous year as have renewable energy costs. In fact, Renewable Energy Credits (RECs) traded at historic highs during FY 2023-2024 and as discussed in the *Currently Known Facts, Decisions, or Conditions* of this MD&A, little relief is in sight.

In addition to the higher cost of wholesale energy supply, DCE has faced cost exposure related to Resource Adequacy (RA) regulatory actions which increased expenses by approximately \$1.6 million in FY 2023-2024 as compared to the previous fiscal year. These regulatory requirements have necessitated additional expenditures to ensure compliance and maintain the reliability of DCE's energy supply. Consequently, product costs have risen, reflecting the need for all load serving entities, including DCE, to secure adequate resources to meet future regulatory standards.

Other expenses during FY 2023-2024 remained stable from the prior year and included payments to consultants and various professional service vendors like or lease the Coachella Valley Association of Governments who provides administrative staffing for DCE.

Significant Capital Asset and Long-Term Financing Activity

In FY 2023-2024, DCE had no significant capital asset or long-term financing activity.

**DESERT COMMUNITY ENERGY
MANAGEMENT DISCUSSION & ANALYSIS
YEAR ENDED JUNE 30, 2024**

CURRENTLY KNOWN FACTS, DECISIONS OR CONDITIONS

DCE is aware of three developments that will have a significant effect on its finances in the future and were either included into the FY 2024-2025 budget or will be incorporated through a future budget amendment at an upcoming DCE Board meeting:

- (1) Increases in prices for Resource Adequacy (RA) and Renewable Portfolio Standard (RPS) products
- (2) Uncertainty in Competitive Rate Setting
- (3) Amended contract with Cape Generating Station 1

Trends in Energy Prices

Renewable energy and RA prices in California are under substantial upward pressure. The demand for RA in California exceeds the available supply. The increased demand for products meeting the California RPS requirements driven by renewable energy mandates under California law and procurement orders by the California Public Utilities Commission (CPUC) is leading to increased prices for renewable energy. The Market Price Benchmarks (MPB) released by the CPUC in October 2024 showed the 2025 Forecast Price for Resource Adequacy to be nearly three times higher than the 2023 Final MPB. The 2025 Forecast Price for RPS products is nearly 2.5 times higher than the 2023 Final MPB. Based on these currently known facts, DCE staff expects an amendment in budgetary net position for FY2024-25 that will be taken to an upcoming DCE Board meeting. The FY 2024-2025 budgeted net position is expected to decrease due to these increases in expenses by approximately \$2.6 million.

Trends in Competitive Rate Setting

In October 2024, Southern California Edison (SCE) filed its 2025 ERRA Forecast October Update which supersedes its 2025 ERRA Forecast May Update. ERRA stands for Energy Resource Recovery Account (ERRA) Proceeding and is a mechanism for the CPUC to regulate Investor-Owned Utilities (such as SCE) to determine which purchased power costs can be recovered in customer rates. Given the timing of these filings and DCE's current competitive rate setting model outlined in the board approved RSS, during FY2024-2025 budget preparation, DCE used the May Update to estimate the second half of fiscal year revenues. However, when the 2025 ERRA Forecast October Update was filed, SCE rates decreased from the May Update on which the budget was based. This indicates a likely decrease in DCE's charges for electricity that will, in turn, decrease the 2024-2025 budgeted net position by at least \$4.0 million. Based on these currently known facts, DCE staff expects an amendment in budgetary net position for FY2024-25 that will be taken to an upcoming DCE Board meeting.

Amended Contract

On October 21, 2024, the DCE Board approved Amendment No. 1 to the Renewable Power Purchase Agreement (PPA) with Cape Generating Station 1 LLC, a subsidiary of Fervo Energy, for the Cape Station geothermal project located in Beaver County, Utah. The amendment allows for updated pricing, additional energy and a revised commercial operation date (COD) of January 1, 2031, nearly five years after the COD of June 1, 2026, in the original PPA. The total additional cost to DCE, because of the additional energy and the higher price, is estimated to be approximately \$12.3 million over the 15-year term of the project.

**DESERT COMMUNITY ENERGY
MANAGEMENT DISCUSSION & ANALYSIS
YEAR ENDED JUNE 30, 2024**

CONTACTING DCE'S FINANCIAL MANAGEMENT

This financial report is designed to provide customers, business counterparties, resource providers and other interested entities with a general overview of DCE's business finances and accountability. If you have questions about this report or need additional financial information, contact DCE's office administered by the Coachella Valley Association of Governments (CVAG), attention Director of Finance located at 74-199 El Paseo Suite 100, Palm Desert, CA 92260 and open 8AM until 5PM Monday through Friday, excluding CVAG holidays.

BASIC FINANCIAL STATEMENTS

Desert Community Energy
Statement of Net Position
June 30, 2024
(With prior year comparative totals)

	2024	2023
Assets:		
Current Assets:		
Cash and investments (note 2)	\$ 25,858,814	\$ 8,805,855
Restricted cash (note 2)	147,000	147,000
Accounts receivable, net (note 3)	16,074,558	16,405,499
Interest receivable	2,410	-
Prepays	4,146,988	110,592
Total Current Assets	46,229,770	25,468,946
Non-current Assets:		
Deposits	710,584	310,584
Total Non-current Assets	710,584	310,584
Total Assets	46,940,354	25,779,530
Liabilities:		
Current Liabilities:		
Accounts payable (note 4)	10,379,697	5,446,730
Due to other governments (note 5)	968,878	613,426
Total Current Liabilities	11,348,575	6,060,156
Non-current Liabilities:		
Deposits payable	405,000	405,000
Total Non-current Liabilities	405,000	405,000
Total Liabilities	11,753,575	6,465,156
Net Position:		
Restricted	147,000	147,000
Unrestricted	35,039,779	19,167,374
Total Net Position	\$ 35,186,779	\$ 19,314,374

See accompanying notes to financial statements.

Desert Community Energy
Statement of Revenues, Expenses, and Changes in Net Position
Year ended June 30, 2024
(With prior year comparative totals)

	<u>2024</u>	<u>2023</u>
Operating Revenues:		
Electricity sales	\$ 69,668,924	\$ 62,844,817
Miscellaneous	31,349	460,674
	<u>69,700,273</u>	<u>63,305,491</u>
Total operating revenues		
Operating Expenses:		
Electricity cost	51,450,582	45,963,031
Consultants charges	2,266,240	2,443,873
Administration and general	243,013	162,500
Professional services	355,898	276,624
	<u>54,315,733</u>	<u>48,846,028</u>
Total operating expenses		
Operating income (loss)	<u>15,384,540</u>	<u>14,459,463</u>
Nonoperating Revenues (Expenses):		
Interest revenue	489,079	30,179
Interest expense	<u>(1,214)</u>	<u>(46,655)</u>
	<u>487,865</u>	<u>(16,476)</u>
Total nonoperating revenues (expenses)		
Change in net position	15,872,405	14,442,987
Net Position - beginning	<u>19,314,374</u>	<u>4,871,387</u>
Net Position - ending	<u>\$ 35,186,779</u>	<u>\$ 19,314,374</u>

See accompanying notes to financial statements.

Desert Community Energy
Statement of Cash Flows
Year ended June 30, 2024
(With prior year comparative totals)

	2024	2023
Cash Flows from Operating Activities:		
Cash received from customers and users	\$ 70,031,214	\$ 52,044,727
Cash received from others	-	5,096,040
Cash paid to suppliers for goods and services	(53,463,710)	(49,769,371)
Net cash provided by (used for) operating activities	16,567,504	7,371,396
Cash Flows from Noncapital Financing Activities:		
Payments to line of credit	-	(2,200,000)
Interest paid	(1,214)	(46,655)
Net cash provided by (used for) noncapital financing activities	(1,214)	(2,246,655)
Cash Flows from Investing Activities:		
Investment income	486,669	30,179
Net cash provided by investing activities	486,669	30,179
Net increase in cash and cash equivalents	17,052,959	5,154,920
Cash and Cash Equivalents, beginning of year	8,952,855	3,797,935
Cash and Cash Equivalents, end of year	\$ 26,005,814	\$ 8,952,855
Reconciliation of Operating Income to Net Cash Provided by (Used for) Operating Activities:		
Operating income (loss)	\$ 15,384,540	\$ 9,363,423
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities		
Other revenues	-	5,096,040
Decrease (increase) in accounts receivable	330,941	(6,164,724)
Decrease (increase) in deposits	(400,000)	(310,584)
Decrease (increase) in prepaids	(4,036,396)	21,423
Increase (decrease) in accounts payable	4,932,967	784,464
Increase (decrease) in deposits payable	-	(1,275,000)
Increase (decrease) in due to other governments	355,452	(143,646)
Total adjustments	1,182,964	(1,992,027)
Net cash provided by (used for) operating activities	\$ 16,567,504	\$ 7,371,396

There were no significant noncash financing, capital, or investing activities for the years ended June 30, 2024 and 2023.

See accompanying notes to financial statements.

NOTES TO THE BASIC FINANCIAL STATEMENTS

Desert Community Energy
Notes to the Basic Financial Statements
Year ended June 30, 2024

(1) Summary of Significant Accounting Policies

(a) Description of Reporting Entity

Desert Community Energy (DCE) is a public joint powers agency located within the geographic boundaries of Riverside County, California formed via a Joint Powers Agreement (JPA) in October 2017 for the purpose of implementing and administering a Community Choice Aggregation (CCA) program. DCE is comprised of the cities of Palm Springs and Palm Desert and is certified by the California Public Utilities Commission (CPUC). Community Choice Aggregation is a local energy program established by state law that allows cities and counties to pool (or aggregate) the electricity demand of participating communities. DCE buys and/or develops power resources on behalf of the electricity customers in its jurisdiction to offer cleaner, competitively priced electricity while retaining local control, reinvesting revenues, encouraging local job creation, offering more renewable energy options, and reducing greenhouse gas (GHG) emissions. DCE offers ratepayers a choice in electricity providers and in the type of electricity they use. DCE began serving customers in Palm Springs in April 2020 while Palm Desert plans to launch no sooner than 2027. DCE is governed by a Board of Directors composed of one locally elected representative from each of the participating city councils. The Board schedules regular meetings that are open to the public, ensuring transparency and encouraging community involvement. Formation of a CCA through a JPA does not require contributions from participating member agencies. The assets and liabilities of the CCA program remain separate from those of the participating agencies' general fund.

(b) Basic Financial Statements

The basic financial statements (i.e., Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position, and Statement of Cash Flows) report information on all the enterprise activities of the entity.

(c) Measurement Focus, Basis of Accounting and Financial Statement Presentation

The financial statements are presented using the full accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when the liability is incurred.

Enterprise funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing goods and services. The principal operating revenues of the entity are sales of electricity. Operating expenses include the cost of electricity purchases, consultants' costs and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Desert Community Energy
Notes to the Basic Financial Statements
Year ended June 30, 2024

(1) Summary of Significant Accounting Policies (Continued)

(d) Assets, Liabilities and Net Position

Cash and Investments

For purposes of the statement of cash flows, all highly liquid investments with a maturity of three months or less when purchased are considered cash equivalents. The entity maintains a checking account and money market account which is considered a cash equivalent.

Fair Value Measurements

Certain assets and liabilities are required to be reported at fair value. The fair value framework provides a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of fair value hierarchy are described as follows:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, and fair value is determined through the use of models or other valuation methodologies including:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in markets that are inactive;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement. These unobservable inputs reflect DCE's own assumptions about the inputs market participants would use in pricing the asset or liability (including assumptions about risk). These unobservable inputs are developed based on the best information available in the circumstances and may include DCE's own data.

Prepaid Expenses

Payments made for services that will benefit periods beyond June 30, 2024, are recorded as prepaid items in the financial statements. The cost of prepaid items is recorded as expenses when consumed rather than when purchased.

Desert Community Energy
Notes to the Basic Financial Statements
Year ended June 30, 2024

(1) Summary of Significant Accounting Policies (Continued)

Net Position

For the year ended June 30, 2024, DCE reported net position as classified in the following categories:

- *Investment in capital assets* – This component of net position consists of capital assets reduced by accumulated depreciation and by any outstanding debt incurred to acquire, construct, or improve those assets.
- *Restricted* – This component of net position consists of resources with external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted net position* – This component of net position consists of net position that do not meet the definition of “restricted” or “investment in capital assets.” When both restricted and unrestricted resources are available for use, it is DCE’s policy to use restricted resources first.

(e) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

(f) Revenue Recognition

DCE recognizes revenue on the accrual basis. This includes invoices issued to customers during the reporting period and electricity estimated to have been delivered but not yet billed. Management estimates that a portion of the billed amounts will be uncollectible. Accordingly, an allowance for uncollectible accounts has been recorded.

(g) Income Taxes

DCE is a joint powers authority under the provision of the California Government Code and is not subject to federal or state income or franchise taxes.

(h) Utility Users Taxes and Electric Energy Surcharges Due to Other Governments

DCE is required by governmental authorities (state and local) to collect and remit user taxes on certain customer sales. These taxes do not represent revenues or expenses to DCE.

Desert Community Energy
Notes to the Basic Financial Statements
Year ended June 30, 2024

(1) Summary of Significant Accounting Policies (Continued)

(i) Prior Year Comparative Information

Selected information regarding the prior year has been included in the accompanying financial statements. This information has been included for comparison purposes only and does not represent a complete presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with DCE's prior year financial statements, from which this selected financial data was derived. In addition, certain minor reclassifications of prior year data have been made to enhance their comparability to the current year.

(2) Cash and Investments

Cash and investments of the entity consisted of demand deposits with financial institutions. At June 30, 2024, the carrying amount of DCE's cash accounts was \$26,005,814 of which \$147,000 was restricted.

Cash and cash equivalents:	
Deposits with financial institutions	\$ 2,678,566
California Asset Management Program	14,285,262
State of California Local Agency Investment Fund	<u>6,444,172</u>
Total cash and cash equivalents	<u>23,408,000</u>
Investments:	
Investments held by custodian	<u>2,597,814</u>
Total cash and investments	<u>\$ 26,005,814</u>

Custodial credit risk – Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party.

The California Government Code does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

Desert Community Energy
Notes to the Basic Financial Statements
Year ended June 30, 2024

(2) Cash and Investments (Continued)

DCE maintains an investment policy that establishes thresholds for holdings of individual investments. DCE did not have any investments meeting or exceeding the allowable threshold levels as of June 30, 2024.

Authorized Investment Type	% of Portfolio Authorized	Maximum Maturity
United States Treasury Federal Agency	0-100%	Maximum maturity: 5 Years
	0-100%	Maximum maturity: 5 years No more than 30% of the portfolio may be invested in any single issuer.
Local Government Investment Pools	0-75%	N/A
State of California Local Agency Investment Fund	Up to LAIF Maximum (\$75,000,000 per account)	N/A
California State and Local Agency	0-25%	Maximum maturity: 5 Years Rated "A" or higher by S&P <i>or</i> by Moody's.
Commercial Paper	0-25%	Maximum maturity: 270 days Rated "A-1" by S&P or "P-1" by Moody's. No more than 10% of the portfolio may be invested in the CP and MTNs of a single issuer. Asset-backed CP is ineligible for purchase.
Negotiable/Time Certificates of Deposit	0-25%	Maximum maturity: 5 Years
Medium-Term Notes	0-25%	Maximum maturity: 5 years Rated "A" or higher by S&P <i>or</i> by Moody's. No more than 10% of the portfolio may be invested in the CP and MTNs of any single issuer.
Money Market Mutual Funds ("MMF")	0-20%	Either rated "AAA" by S&P, "Aaa" by Moody's, or "AAA-V-1+" by Fitch (2 of 3), or retains an investment advisor registered or exempt from registration with SEC, with at least 5 years of experience managing a MMF with \$500 million or more in assets.
Repurchase Agreement	0-10%	Maximum maturity: 30 Days Collateral must be United States Treasury, Federal, Agency, or GSE obligations. Zero coupon and stripped coupon instruments are not acceptable as collateral. Collateral must be valued at 102% of cost and adjusted weekly. DCE must have first lien and security interest in all collateral. DCE's custodian must hold collateral. An authorized broker must file a Public Securities Association ("PSA") Master Repurchase Agreement with DCE, and DCE's attorney must review the agreement, prior to the transaction of RP business with that broker. Reverse Repurchase Agreements are specifically not authorized under this investment policy.
Structured Notes	0-20%	Maximum maturity: 5 Years

Desert Community Energy
Notes to the Basic Financial Statements
Year ended June 30, 2024

(2) Cash and Investments (Continued)

DCE is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of DCE's investment in this pool is reported in the accompanying financial statements at amounts based on DCE's pro rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on accounting records maintained by LAIF, which are recorded on an amortized cost basis. The entire balance of DCE's share of the investment pool is available for withdrawal at any time. LAIF is not registered with the Securities and Exchange Commission and is not rated. Deposits and withdrawals in LAIF are made on the basis of \$1 and not fair value. Accordingly, DCE's investment in this pool is measured on uncategorized inputs not defined as Level 1, 2, or 3.

DCE is a voluntary participant in the CAMP, which is an investment pool offered by the California Asset Management Trust. The trust is a joint powers authority and public agency created by the Declaration of Trust and established under the provisions of the California Joint Exercise of Powers Act (California Government Code Sections 6500, et seq.) for the purpose of exercising the common power of its participants to invest certain proceeds of debt issues and surplus funds. In accordance with Section 53601(p) of the California Government Code, CAMP's investments are limited to investments permitted by subdivisions (a) to (n), inclusive, of Section 53601. Deposits in the CAMP are presented as cash and cash equivalents as they are available for immediate withdrawal or deposit at any time without prior notice or penalty and there is no significant risk of principal loss. DCE reports its investments in CAMP at amortized cost provided by CAMP, which is the same as the value of the pool share. CAMP is rated AAA.

(3) Accounts Receivable, Net

At June 30, 2024, DCE reported \$16,074,558 in accounts receivable, net of the allowance for uncollectible accounts. The details of this balance are as follows:

Accounts receivable	\$	17,263,238
Less: allowance for uncollectable accounts		<u>(1,188,680)</u>
Total Accounts Receivable, Net		<u>\$ 16,074,558</u>

(4) Accounts Payable

At June 30, 2024, DCE reported \$10,379,697 in accounts payable. The details of this balance are as follows:

Accounts payable - electricity cost	\$	10,163,951
Accounts payable - other		<u>215,746</u>
Total Payables		<u>\$ 10,379,697</u>

Desert Community Energy
Notes to the Basic Financial Statements
Year ended June 30, 2024

(5) Due to Other Governments

At June 30, 2024, DCE reported \$968,878 in Due to Other Governments. The details of this balance are as follows:

Utility Users Taxes & Electric Energy Surcharges	\$ 539,063
Related party payables (note 7)	154,357
Other	275,458
	<hr/>
Total Due to Other Governments	<u>\$ 968,878</u>

(6) Line of Credit

Revolving Line of Credit

On February 11, 2022, DCE entered into a revolving line of credit agreement for the amount of \$8,000,000 with River City Bank. The revolving line of credit was amended in July 2022 to increase the amount to \$13,000,000. The line of credit accrues interest at a rate of three-month treasury constant maturity rate plus 1.75 percent and terminates February 1, 2025.

Subject to satisfaction of the terms, DCE may exercise a one-time option to convert all outstanding Working Capital Advances to a Term Loan. If the Term Loan Conditions are satisfied, the Term Loan will be payable over a term of thirty-six (36) months, with equal fully amortizing monthly payments of principal and interest at the Applicable Rate as determined by Lender as of the date of conversion and will be governed by the terms and conditions of this Agreement and evidenced by a separate promissory note.

Additionally, as security for the prompt payment and performance of all obligations, DCE has granted River City Bank a continuing security interest as collateral per the terms on the agreement. On June 30, 2024, there was no outstanding balance.

(7) Related Party Transactions

DCE entered into a contract with Coachella Valley Association of Governments (CVAG), whereby CVAG, under the direction of the DCE, will coordinate and implement the DCE activities. The contract calls for DCE to pay CVAG based upon actual staff time spent at rates not to exceed the rates paid by CVAG. During the period from July 1, 2023 through June 30, 2024, CVAG incurred on behalf of DCE \$664,401 of staff time and allocated administrative expenses which was billed. As DCE recognizes expenses on the accrual basis, an adjustment of \$598 has been recorded as an estimated credit, reducing the total expenditure. As of June 30, 2024, \$154,357 of the total amount billed was payable to CVAG.

(8) Risk Management

On June 17, 2024, DCE's Board adopted the Wholesale Energy Procurement Risk Management Policy (WEPRMP), updating and replacing the Energy Risk Management Policy adopted on May 21, 2018. The WEPRMP applies to all power procurement and related business activities that may impact the risk profile of DCE.

Desert Community Energy
Notes to the Basic Financial Statements
Year ended June 30, 2024

(8) Risk Management (Continued)

The WEPRMP provides a structured, disciplined, and consistent approach to wholesale energy procurement risk management that facilitates risk-informed decision making in wholesale energy activities, which makes up 96% of DCE's annual budget. The WEPRMP supports DCE in aligning its strategy, processes, people, and technology for the purpose of evaluating and managing energy procurement uncertainties inherent to the energy industry and power procurement. By strategically managing risk associated with power procurement activities, DCE can proactively reduce the chance of loss, identify and take advantage of procurement opportunities, create greater financial stability, and protect its resources to support its mission and create value for its members.

The ultimate purpose of the WEPRMP is to support DCE's achievement of its goals by specifying management responsibilities, organizational structures, risk management standards, and the operating controls and limits necessary to appropriately identify, evaluate, and manage DCE's exposure to wholesale energy procurement risk. DCE's WEPRMP can be found on its website.

To ensure successful operation of the CCA program, DCE has partnered with experienced consultants to provide energy-related services. Specific to power procurement, DCE has partnered with The Energy Authority (TEA) which executes the preponderance of front (transacting), middle-(monitoring) and back-office (settlement) related activities on DCE's behalf. In providing these services for DCE, TEA adheres to and is governed by the WEPRMP. In addition, TEA maintains its own risk management policies and procedures, following industry best practices of segregation of duties, which also govern activities executed on DCE's behalf. Credit guidelines include a preference for transacting with investment-grade counterparties, evaluating counterparties' financial condition and assigning credit limits as applicable. These credit limits are established based on risk and return considerations under terms customarily available in the industry. In addition, DCE enters into netting arrangements whenever possible and where appropriate obtains collateral and other performance assurances from counterparties.

(9) Long-Term Energy Agreements

During the normal course of business, DCE enters into various agreements, including renewable energy agreements, energy storage agreements (ESAs), and other power purchase agreements (PPAs) to purchase power and electric capacity. DCE's long-term energy agreements are described below.

Terra-Gen, LLC

On December 21, 2020, the DCE Board approved three, 15-year (PPAs) with Terra-Gen, LLC. Terra-Gen, LLC is a leading developer, owner, and operator of renewable energy projects that has been operating since 2008. Terra-Gen specializes in development, construction and operation of utility-scale wind, solar, energy storage as well as geothermal generation facilities.

Desert Community Energy
Notes to the Basic Financial Statements
Year ended June 30, 2024

(9) Long-Term Energy Agreements (Continued)

Under the pricing terms in the agreement, DCE pays for the electricity generated by the projects at a fixed-price rate per MWh (megawatt hour), with no escalation for the full 15-year term of the contract. All attributes from the facility, including energy, Renewable Energy Credits (RECs) and Resource Adequacy (RA) will be available to DCE. The contracts reflect pricing that is typical in the current market for new and existing wind resources. The completion of long-term contracts for DCE's renewable portfolio represents an expected reduction in overall program costs. This cost reduction is over both the short-term and long-term due to the relatively low cost of the expected PPAs for the projects compared to purchasing the same energy, capacity, and RECs on the open market. The 10.8-megawatt (MW) Coachella Hills II project achieved its Commercial Operation Date (COD) and entered DCE's portfolio on May 4, 2021. The existing 9.8 MW Altwind and 12.6 MW East Wind projects entered DCE's portfolio on January 1, 2023.

OhmConnect

On June 29, 2022, the DCE Board approved a Western Systems Power Pool Resource Adequacy Confirmation with Resi Station LLC (Resi Station), a subsidiary of OhmConnect, for system RA benefits from an aggregated demand response project. DCE's pro rata share of the project is 4.5 MW of the 15 MW peak volume over a 10-year period that began January 1, 2023.

Southern California Edison (SCE) – Voluntary Allocation Agreement

In accordance with California Public Utilities Commission (CPUC) Decision 21-05-030, on June 29, 2022, the DCE Board approved staff's recommendation to request from SCE a 100 percent allocation of SCE's long-term renewable load share resources - 10 years or longer remaining on the contracts with allocations for the remainder of the term of the contract. DCE entered into a Voluntary Allocation Agreement with SCE as of July 26, 2022. Deliveries of this allocation began in January 2023 and will run through May 2040. DCE pays the annual Market Price Benchmark (MPB) for resources allocated through this process. The CPUC resets the MPB by October 1 each year.

SCE – RA Confirmation

On September 29, 2022, DCE executed a Master Agreement and RA Confirmation with SCE in accordance with CPUC Decision 22-05-015. This Decision allows DCE to purchase from SCE a share of the system or flexible RA capacity for loads that have migrated from SCE at the annual MPB. The RA delivery period began on January 1, 2023, and continues until September 30, 2041.

Fervo Energy

On September 28, 2022, DCE executed a contract with Cape Generating Station 1 LLC, a subsidiary of Fervo Energy (Fervo), for a geothermal project located in Beaver County, Utah. DCE's pro rata share of the project is MW of the 20 MW average net capacity over a 15-year period, with an expected COD of June 1, 2026.

Desert Community Energy
Notes to the Basic Financial Statements
Year ended June 30, 2024

(9) Long-Term Energy Agreements (Continued)

Fervo's geothermal systems make use of horizontal drilling techniques coupled with Organic Rankine Cycle (ORC) generator systems to deliver zero-carbon, zero-emission electricity. ORC power plants are zero-carbon, zero-emission generators. Thermal energy is supplied at high temperature to the ORC by a heat transfer fluid consisting of geothermal brine. The ORC turbo generator then converts thermal energy from geothermal fluid into electric energy using a turbine coupled with an electric generator. ORC plants are fully dispatchable and flexible, with extremely fast ramping rates of up to 30 percent of nominal capacity per minute. The project will be eligible for certification under the California Renewables Portfolio Standard and inclusion in DCE's Carbon Free product generation portfolio.

Under the pricing terms in the PPA, DCE will pay for the energy generated by the project at a fixed-price rate per MWh (megawatt hour), with a 2 percent annual escalator after the first contract year. All attributes from the project, including energy, RECs, and RA, will be available to DCE.

NextEra Energy Resources Power Purchase Agreement

On September 27, 2023, DCE executed an ESA with Desert Sands Energy Storage II, LLC, a subsidiary of NextEra Energy Resources. The project is a 25 MW/ 200 MWh lithium ion battery storage facility that is part of a larger 700 MW energy complex located largely within the Palm Springs City limits.

The project is located on a parcel zoned for energy-industrial uses with existing wind turbines and related energy infrastructure on it. The project is being developed in two phases: Desert Peak (Phase 1) and Desert Sands (Phase 2), which includes DCE's facility. The expected COD for DCE's portion of the project is April 1, 2027.

Under the pricing terms in the ESA, DCE will pay for the use of its portion of the Desert Sands project at a fixed-price rate per kW-month, with no escalation, for the full 15- year term of the ESA. DCE is entitled to all product attributes from the facility, including energy, ancillary services, and RA.

(10) Contract Commitments

At June 30, 2024, DCE had potential undiscounted, contractual commitments for energy storage and power purchases through 2041 totaling approximately \$100,061,059. In addition, DCE had expected contractual commitments to contract and professional service providers for services yet to be performed in the amount of \$2,399,431 through June 30, 2024. Many of the fees associated with these contracts are based on volumetric or other variable activity and actual results may differ.

(11) Subsequent Events

On October 21, 2024, the DCE Board approved Amendment No. 1 to the Renewable Power Purchase Agreement (PPA) with Cape Generating Station 1 LLC, a subsidiary of Fervo Energy, for the Cape Station geothermal project located in Beaver County, Utah. The amendment allows for updated pricing, additional energy and a revised commercial operation date (COD) of January 1, 2031, nearly five years after the COD of June 1, 2026, in the original PPA.

Desert Community Energy
Notes to the Basic Financial Statements
Year ended June 30, 2024

(11) Subsequent Events (Continued)

In August 2024, S&P Global Ratings (S&P) assigned a BBB issuer credit rating to DCE with a stable outlook. A BBB rating from S&P indicates that DCE has an adequate capacity to meet its financial commitments, but it is more susceptible to adverse economic conditions compared to higher-rated entities. This rating reflects DCE's improved financial metrics, enhanced liquidity, and stable customer base.